

Message Text

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ACTION EB-04

INFO OCT-01 ISO-00 SS-04 NSC-04 NSCE-00 TRSE-00 FRB-03

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O R 072245Z SEP 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 3055

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 PARIS 23763

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, IMF

SUBJECT: C-20 DEPUTIES' MEETING

FOR TREASURY SECRETARY SHULTZ, DEPUTY UNDER SECRETARY
BENNETT AND WIDMAN

TOKYO FOR SECRETARY SHULTZ AND WIDMAN

1. FOLLOWING IS APPROXIMATE TEXT OF "PROPOSAL FOR DEALING WITH
ADJUSTMENT AND CONVERTIBILITY" WHICH FORMED BASIS FOR CONCLUSION
OF C-20 DEPUTIES ON THESE POINTS. BUREAU WILL PROVIDE NEW TEXT
BASED ON THIS FOR NEXT MEETING. BEGIN TEXT:

A. ADJUSTMENT (PARA REFERENCES ARE TO 3, 6, 7 AND 8 OF
AUGUST 6 COMMENTARY AND 4 AND 5 OF DRAFT OUTLINE)

1. ADOPT THE SUBSTANCE OF PARAGRAPHS 3 AND 6 STATING THAT
THIS IS AGREED SUBJECT TO:

(I) EVENTUAL AGREEMENT ON THE WHOLE RANGE OF ISSUES OF
REFORM;

(II) AGREEMENT ON OPERATIONAL PROVISIONS SUCH AS THE DEFINITION
OF RESERVES, LEVEL OF RESERVES, INDICATOR POINTS,
ETC.

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2. REVISE PARAGRAPH 8 TO RECOGNIZE THAT THERE WILL BE SME PRESSURES; RECORD SUGGESTIONS FOR FORMS OF PRESSURES; RECOGNIZE DISAGREEMENT ABOUT:

(A) WAY OF TRIGGERING PRESSURES;

(B) WHETHER THERE SHOULD BE OTHER PRESSURES (PUBLICATION OF A REPORT AND TRADE PRESSURES).
MORE WORK TO BE DONE ON (A) AND (B) ABOVE.

3. RETAIN THE SUBSTANCE OF PARAGRAPHS 4, 5 AND 7 SUBJECT TO AGREED AMENDMENTS.

B. CONVERTIBILITY

1. INTRODUCE WITH A STATEMENT OF OBJECTIVES OF CONVERTIBILITY ON THE LINES OF INTRODUCTION ON PAGE 5 OF COMMENTARY (C/XX/DEP/DOC//73/80).

2. SENTENCES ALONG THE FOLLOWING LINES:

IT IS AGREED THAT ALL COUNTRIES MAINTAINING A PAR VALUE WILL SETTLE IMBALANCES BY USING RESERVE ASSETS WHEN BALANCES OF THEIR CURRENCIES ARE PRESENTED TO THEM FOR CONVERSION.

IT IS AGREED THAT THE AMOUNT OF INTERNATIONAL LIQUIDITY INCLUDING IN PARTICULAR THE AGGREGATE VOLUME OF CURRENCY HOLDINGS SHOULD BE KEPT UNDER INTERNATIONAL REVIEW AND SURVEILLANCE TAKING INTO ACCOUNT THE NECESSARY INCREASE IN RELATION TO THE DEVELOPMENT OF INTERNATIONAL TRANSACTIONS.

STATE THAT THESE POINTS ARE AGREED SUBJECT TO:

- (I) EVENTUAL AGREEMENT ON THE WHOLE RANGE OF ISSUES OF REFORM;
- (II) AGREEMENT ON OPERATIONAL PROVISIONS.

3. RECOGNIZE THAT THERE MUST BE FURTHER STUDY OF THE MECHANISM OF CONVERTIBILITY, INCLUDING A POSSIBLE SUBSTITUTION
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FACILITY.

4. RECOGNIZE THAT THERE IS DISAGREEMENT ABOUT THE MANDATORY NATURE OF ASSET SETTLEMENT.

5. RECORD THE DIFFERENT SUGGESTIONS FOR ELASTICITY AND RECOGNIZE THAT THERE IS DISAGREEMENT ABOUT THEM.

6. MORE WORK TO BE DONE ON 4 AND 5 ABOVE. END TEXT.

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C O N F I D E N T I A L SECTION 2 OF 2 PARIS 23763

LIMDIS GREENBACK

2. PARA B3 INCLUDES STUDY OF DISAGREEMENT RE DIRECT OR INDIRECT (VIA IMF) FORM. PARA B5 COVERS VARIOUS PROBLEMS RE SHORT-TERM ELASTICITY IN SYSTEM, INCLUDING NEED FOR SYMMETRICAL RELIEF IN CONVERSION OBLIGATION FOR DEFICIT COUNTRY WHEN SURPLUS COUNTRY TRIGGERED INTO NON-CONVERSION AND NEGATIVE INTEREST RATE POSITION, ON WHICH VOLCKER MADE FULL RECORD. ON CONVERTIBILITY, JAPANESE REP. RAISED OBJECTIONS TO THE PHRASE "MAINTAINING PAR VALUES" IN THE SENTENCE COVERING THE AGREED POSITION ON CONVERTIBILITY, AND WISHED THIS TO BE STUDIED FURTHER. IN EARLIER DEBATE, CONCERN WAS EXPRESSED AS TO WHETHER OLD CURRENCY BALANCES WOULD BE CONVERTED IF ISSUING COUNTRY WERE FLOATING.

3. ON THE QUESTION OF THE STRUCTURE OF THE FUND, JAPANESE REPRESENTATIVE (INAMURA) GAVE PRELIMINARY VIEW THAT HE FAVORED A NEW EXECUTIVE COMMITTEE AT THE GOVERNORS LEVEL ALONG LINES OF C-20, AND WANTED A STRENGTHENED EXECUTIVE BOARD. SUGGESTED EACH CONSTITUENCY COULD APPOINT A NON-RESIDENT DIRECTOR WHO COULD BE PRESENT AT SPECIAL CONSULTATIVE MEETINGS ON EXECUTIVE BOARD ALONG WITH THE RESIDENT DIRECTOR. IF DESIRED, CONSTITUENCIES COULD ALLOW REGULAR EXECUTIVE DIRECTORS TO REPRESENT THEM AT SUCH MEETINGS. IT WAS DESIRABLE TO HAVE POLICY-MAKING OFFICIALS PARTICIPATE IN THESE SPECIAL MEETINGS. ALSO MADE POINT THAT QUOTAS SHOULD BE REVIEWED BEFORE THE NEW MONETARY SYSTEM CAME INTO EFFECT.

4. OTHER MAJOR POINTS MADE BY JAPANESE DURING THE MEETING WERE
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AS FOLLOWS:

(A) INSISTENCE THAT SHOULD AVOID ANY "AUTOMATIC" PRESSURES AND
ALL PRESSURES SHOULD BE BASED ON AN ASSESSMENT IN IMF BODY.

(B) SUPPORTED MULTI-CURRENCY INTERVENTION AND SETTLEMENTS
THROUGH THE IMF. COUNTRIES NOT PARTICIPATING IN MCI
WOULD NOT REPEAT NOT BE REQUIRED TO CONVERT. THERE SHOULD
BE NO ELASTICITY WITHOUT A MULTILATERAL DECISION.

(C) ON THE FRENCH PENALTY SUGGESTION FOR DISPROPORTIONATE
RESERVE ACCUMULATIONS, ZERO INTEREST WAS SUFFICIENT,
AND A NEGATIVE INTEREST RATE WAS NOT DESIRABLE.

5. FOLLOWING ARE MAIN POINTS OF SUBSTANCE MADE BY FRENCH DURING
THE MEETING:

(A) COMPETITIVE DEPRECIATION SHOULD BE CONDEMNED, AND THE RULES
FOR FLOATING SHOULD COVER BOTH THE CONDITIONS WHICH PERMIT
FLOATING AND THE RULES OF CONDUCT FOR FLOATERS.

(B) NO NEED FOR CHANGING PRESENT RELATIONS BETWEEN IMF-GATT.

(C) FUND SHOULD HAVE POWER TO RECOMMEND USE OF CONTROLS
ON CAPITAL MOVEMENTS.

(D) CHAIRMAN'S REPORT TO MINISTERS SHOULD MAKE EXPLICIT LARGE
MAJORITY AGAINST U.S. ON MANY POINTS.

(E) PREFERRED TO STATE CLEARLY THE ALTERNATIVES ON GOLD RATHER
THAN A MORE GENERAL NARRATIVE PHRASEOLOGY.

(F) COMPLAINED THAT IN NEGOTIATIONS OTHERS HAD MADE EFFORT
TO COMPROMISE, WHILE U.S. HAD NOT BUDGED FROM ORIGINAL
POSITION OF LAST SEPTEMBER.

(G) BASIC CONCERN IS WITH THE OBLIGATION OF CONVERTIBILITY
MORE THAN ABSTRACT IDEAS ON ADJUSTMENT. COUNTRIES SHOULD
PAY WHAT THEY OWE. FLOATING MEANS COUNTRIES DON'T
REIMBURSE CREDITORS.

(H) DID NOT AGREE WITH PROPOSALS FOR ELASTICITY. USE OF
NATIONAL CURRENCIES AS RESERVES SHOULD BE CONDEMNED,
BUT SEEMED IMPLICIT IN THE BUREAU DRAFT. NEED SOME
GENERAL RULES TO AVOID TENDENCY OF SOME COUNTRIES NOT
REPEAT NOT TO CONVERT THEIR ACCRUALS OF CURRENCY.

(I) DOCUMENT HAS THREE TYPES OF ADJUSTMENT PRESSURES ON
CREDITORS, NONE ON DEFICIT COUNTRIES.

(J) TOO MUCH SUPPORT IN DOCUMENT FOR U.S. INDICATOR PRO-
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POSALS, DESPITE FACT MANY MINISTERS OBJECTED TO THIS.
U.S. POSITION IS TOO PREPONDERANT.

6. BROAD FRENCH CONCERN WAS OBJECTION TO THE BUREAU TEXTS THAT
DID NOT MAKE CLEAR WHAT WAS AGREED AND WHAT WAS STILL DISAGREED.
DEPUTIES SHOULD NOT TRY TO DEVELOP COMPROMISES BUT SHOULD
PRESENT CLEAR STATEMENT OF POSITIONS TO MINISTERS. THIS PAVED WAY FOR
VOLCKER TO SUGGEST THE PRESENTATION ON ADJUSTMENT AND CONVERTI-
BILITY THAT WAS LATER AGREED IN LIEU OF THE BUREAU DRAFT
(SEE PARA 1 ABOVE).
IRWIN

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